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## **BROCHURE** PURSUANT TO PART 2A OF FORM ADV

<http://www.paamco.com/>

Updated: June 6, 2017

This brochure provides information about the qualifications and business practices of Pacific Alternative Asset Management Company, LLC ("**PAAMCO U.S.**"), Pacific Alternative Asset Management Company Europe LLP ("**PAAMCO Europe**"), Pacific Alternative Asset Management Company Asia Pte. Ltd. ("**PAAMCO Asia**"), PAAMCO Araştırma Hizmetleri A.Ş. ("**PAAMCO Turkey**"), Pacific Alternative Asset Management Company Mexico, S.C. ("**PAAMCO Mexico**"), and PAAMCO Colombia S.A.S. ("**PAAMCO Colombia**"). Collectively these entities are referred to as "**PAAMCO.**" If you have any questions about the contents of this brochure, please contact us at 949-261-4900. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about PAAMCO is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

In this brochure, PAAMCO U.S. is referred to as a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and PAAMCO Europe, PAAMCO Asia, PAAMCO Turkey, PAAMCO Mexico, and PAAMCO Colombia are referred to as "relying advisers." SEC registration does not imply a certain level of skill or training.

## Item 2. Material Changes

This section discusses only material changes since the last annual update of this Brochure. This Brochure was previously updated by PAAMCO U.S. on March 30, 2017.

PAAMCO U.S. is registered with the SEC as an investment adviser. Pursuant to an SEC No-Action Letter (American Bar Association, Business Law Section, pub. avail. Jan. 18, 2012), you are receiving this Part 2A of Form ADV from PAAMCO U.S. for itself as “filing adviser” and on behalf of PAAMCO Europe, PAAMCO Asia, PAAMCO Turkey, PAAMCO Mexico and PAAMCO Colombia as “relying advisers” (collectively, “PAAMCO Relying Advisers”). As such, this Brochure incorporates information on PAAMCO U.S. and the PAAMCO Relying Advisers (collectively referred to as “PAAMCO”).

There have been material updates since the last distributed Brochure, dated March 30, 2017, to the following Items:

- Item 4: Updated information regarding changes in PAAMCO’s ownership structure.
- Item 6: Updated information and disclosure regarding allocation of investments and co-investment opportunities.
- Item 8: Updated information and disclosure regarding material risks of significant investment strategies.
- Item 10: Updated information and disclosure on the business combination of PAAMCO and Prisma Capital Partners LP and other financial industry affiliations.
- Item 11: Updated information and disclosure with respect to conflicts of interest resulting from PAAMCO’s relationship with Prisma Capital Partners LP and KKR & Co., L.P.

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#### **Item 4. Advisory Business**

PAAMCO U.S. was founded in 2000 as a “fund of hedge funds” adviser. Through this division (“PAAMCO Fund of Hedge Funds”), PAAMCO U.S. advises Clients (as defined below) on investments in various types of private investment vehicles (each, an “Investment Fund”). The term “Investment Fund” also includes the Separate Funds advised by PAAMCO (as defined below).

On February 6, 2017, PAAMCO U.S. and KKR Topaz LLC, an affiliate of KKR & Co. L.P. (together with its affiliates, “KKR”), entered into an agreement to create a new liquid alternatives investment firm by combining PAAMCO and Prisma Capital Partners LP (“Prisma”), a registered investment adviser owned by KKR, into a new entity called PAAMCO Prisma Holdings, LLC (“PAAMCO Prisma”). Under the terms of the agreement, the entire businesses of both PAAMCO and Prisma were contributed to PAAMCO Prisma, which will operate independently from KKR, and KKR will retain a 39.9% stake as a long-term strategic partner. Employees of PAAMCO and Prisma own the balance of PAAMCO Prisma through a holding company. The final closing for the transaction occurred on June 2, 2017. Please refer to Item 10 for further information regarding Prisma, KKR, and the ownership structure of PAAMCO.

PAAMCO Europe, a subsidiary of PAAMCO U.S., was founded in 2003. PAAMCO Europe’s sole client is PAAMCO U.S., to which it refers potential investment advisory clients, for which it performs due diligence on hedge fund managers, primarily those located in Europe, and for which it provides investment management services relating to PAAMCO’s Direct Trading division (as defined below). As of January 1, 2017, PAAMCO Europe is owned 96.20% by PAAMCO U.S. and the balance is owned by employees of PAAMCO Europe.

PAAMCO Asia, a subsidiary of PAAMCO U.S., was founded in 2006. PAAMCO Asia’s sole client is PAAMCO U.S., to which it refers potential investment advisory clients and for which it performs due diligence on hedge fund managers, primarily those investing in Asia. PAAMCO Asia is owned 88.22% by PAAMCO U.S. and the balance is owned by employees of PAAMCO Asia as of January 3, 2017.

As of December 31, 2016, PAAMCO U.S. managed approximately \$10.1 billion on a discretionary basis.

In addition to its discretionary business, as of December 31, 2016 PAAMCO U.S. (1) provides advice and guidance on a variety of issues as a broad strategic adviser to a U.S. state pension plan with an approximate \$299 million hedge fund portfolio, (2) has a consulting relationship to provide advisory services to a large U.S. endowment with an approximate \$5.0 billion hedge fund portfolio, and (3) provides strategic advisory services to a foundation on approximately \$1.0 billion of hedge fund assets and a large U.S. state pension plan with an approximate \$8.1 billion opportunistic allocation. The strategic advisory services PAAMCO U.S. provides under item (3) are delineated in the respective asset management contracts with these Clients, and the respective fees for such services is included in this Clients’ overall asset management fee. The advisory services for the first two Clients are governed by separate contracts and involve separate fees.

PAAMCO U.S. provides these advisory services to a variety of clients on either a discretionary or non-discretionary basis. In particular, within its Fund of Hedge Funds division:

- (i) PAAMCO U.S. serves as the manager, investment adviser, or subadviser of private funds or separately managed accounts that have a single investor (or group of affiliated investors) ("Client Separate Account");
- (ii) PAAMCO U.S. serves as the manager, investment adviser or subadviser of private funds that have multiple investors that are generally not affiliated with each other ("Client Commingled Funds");
- (iii) PAAMCO U.S. serves as the investment adviser to each segregated portfolio of certain Cayman Islands segregated portfolio companies (each, a "Separate Fund advised by PAAMCO"). The day-to-day investment activities of each Separate Fund advised by PAAMCO are conducted by subadvisers that are not affiliated with PAAMCO (each, a "Subadviser"); and
- (iv) PAAMCO U.S. provides advisory or consulting services to advisory clients ("Advisory Clients") regarding Investment Funds.

PAAMCO may also provide non-investment advisory services, referred to as "Client-Directed Managed Account Services," which is further described below.

The term "Client" as used in this brochure means Client Separate Accounts, the Client Commingled Funds, the Separate Funds advised by PAAMCO, the Advisory Clients and any other investment advisory clients of PAAMCO U.S., including accounts managed by PAAMCO's Direct Trading division (which is described below). The term "PAAMCO Client Accounts" as used in this brochure refers to the Client Separate Accounts and the Client Commingled Funds. The list of Clients above is not exhaustive and PAAMCO U.S. may thus provide advisory services to other types of clients. PAAMCO Relying Advisers may also provide investment services to Clients in the future.

#### Fund of Hedge Funds Division

As noted above, PAAMCO U.S. provides advisory and subadvisory services on a discretionary and non-discretionary basis. For example, PAAMCO U.S. typically has investment discretion with regard to the PAAMCO Client Accounts but typically does not have investment discretion with regard to Advisory Clients.

Generally, only PAAMCO Client Accounts may invest in Separate Funds advised by PAAMCO.

For most Clients, PAAMCO researches and evaluates Investment Funds that PAAMCO U.S. believes will meet such Client's investment objectives. Where PAAMCO U.S. has investment discretion, PAAMCO U.S. is also responsible for implementing its investment advice for a Client by causing the investment or redemption of Client assets in or from Investment Funds and other appropriate investments. As part of its ongoing evaluation of Investment Funds, PAAMCO may determine from time to time that a customized and dynamic investment mandate may be appropriate. PAAMCO reaches that determination in consultation with the applicable Manager (as defined below) or Subadviser and provides that Manager or Subadviser the discretion to implement and pursue the agreed upon mandate.

While PAAMCO U.S. serves as the investment adviser to each Separate Fund advised by PAAMCO, the day-to-day investment activities of each is conducted not by PAAMCO U.S. or the

PAAMCO Relying Advisers but by the relevant Subadviser to such Separate Fund advised by PAAMCO. Under the terms of the subadvisory agreement among the applicable Separate Fund advised by PAAMCO, PAAMCO U.S. and the Subadviser ("Subadvisory Agreement"), the Subadviser is responsible for determining the specific securities and other investments to be bought and sold and arranging the execution of all orders for the purchase and sale of such securities and other investments with respect to the applicable Separate Fund advised by PAAMCO in accordance with the agreed upon mandate and investment guidelines.

PAAMCO U.S. works with each Client Separate Account and Advisory Client to determine such Client's specific investment objectives. During the course of these discussions, a Client Separate Account or Advisory Client may place various types of restrictions on the management of their accounts. For example, a Client Separate Account or Advisory Client may restrict investment in a certain industry, in Investment Funds that implement specific strategies or in a specific region of the world. Investors in Client Commingled Funds may not generally impose restrictions on PAAMCO U.S.'s investment discretion.

Clients and their respective beneficial owners have varying business terms, including, but not limited to, differences in fees charged, redemption rights, information about the positions held by the Investment Funds (as may be permitted by PAAMCO's procedures and by the Investment Fund's unaffiliated manager), functional currency, investment objectives and guidelines, and investment minimums.

Additionally, PAAMCO may also provide client-directed managed account services ("Client-Directed Managed Account Services") to certain investors. These services are intended to provide assistance to investors with their respective in-house direct hedge-fund programs. Client-Directed Managed Account Services are typically obtained by investing in either a segregated portfolio (each, an "SP") of one or more Cayman Islands segregated portfolio companies, where PAAMCO acts as the investment adviser or an Investment Fund advised by an unaffiliated manager (established exclusively for PAAMCO Clients). The PAAMCO Client Account investor identifies and selects a manager to act as a subadviser or adviser to the vehicle established for such investor/client (and certain of its affiliates, if the investor/client so chooses). The investor is responsible for the following with respect to the vehicle: (i) determination of the investment mandate along with investment guidelines, (ii) determination of the fee and redemption terms, (iii) date of investment, and (iv) other business terms (such as key man provisions and notice provisions) that the investor/client deems important. The assets of such vehicle are managed on a day-to-day basis by the selected Manager pursuant to the investment mandate determined by the investor/client.

As part of PAAMCO's Client-Directed Managed Account Services, PAAMCO is typically responsible for (i) operational due diligence on the selected subadviser, (ii) negotiation of legal terms (e.g., legal, regulatory and compliance terms), (iii) executing the subadvisory agreement with the selected subadviser, (iv) providing information on individual portfolio exposure, aggregated position-level exposure, performance attribution and risk modeling, and (v) other operational and reporting services with respect to the SP.

PAAMCO may in the future provide Client-Directed Managed Account Services through other arrangements.

### Direct Trading Division

In November 2015, PAAMCO established a direct trading division ("PAAMCO Direct Trading"), which provides investment management services with respect to emerging market equity securities, primarily focusing on Colombian, Mexican and Turkish securities, but also involving other emerging market equities and potentially equities in some developed markets. PAAMCO U.S. currently provides this service directly to one direct trading business Client, although PAAMCO U.S. has engaged its affiliate, PAAMCO Europe, to provide discretionary investment advice and trade execution services for PAAMCO Direct Trading. PAAMCO Europe receives research and analysis and, to the extent permitted by law, trade execution services from three subsidiaries: PAAMCO Turkey, PAAMCO Mexico and PAAMCO Colombia, which provide such services exclusively to affiliates in accordance with the law and regulations applicable to each such subsidiary. Each of these entities is an indirect, wholly-owned subsidiary of PAAMCO U.S., except that an individual working in the PAAMCO Mexico office has a small minority ownership position in PAAMCO Mexico.

In the PAAMCO Direct Trading division, PAAMCO U.S. contracts with a Client to directly manage and trade portfolios of securities on such Client's behalf. These accounts can be structured as a separately managed account or a private fund.

PAAMCO U.S. does not participate in any wrap fee programs.

### New Business Lines

PAAMCO has various other business lines under development. Each of these businesses are expected to have distinct investment processes and procedures as well as their own respective fee structures. New business lines may not be appropriate for all Clients. Not all Clients will be offered the opportunity to participate in new business lines as they develop.

## **Item 5. Fees and Compensation**

For Client Separate Accounts, investors have a tiered management fee option or a management and incentive (performance-based) fee option. Under the tiered management fee option, the standard management fee for PAAMCO U.S. services is 1% (annual) of assets under management, with breakpoints for lower management fees for investors that exceed specific assets under management thresholds. PAAMCO U.S. is also entitled to receive incentive (performance-based) fees with regard to certain Client Separate Accounts in the tiered management fee option when certain breakpoints are met. Under the management and incentive fee option, the standard management fee for PAAMCO U.S. services is 0.75% (annual) of assets under management, and the standard incentive fee is 5% (annual) of realized and unrealized capital appreciation. For investments greater than \$300 million, a hurdle would apply.

For Client Commingled Funds, the standard management fee for PAAMCO U.S. services is 1% (annual) of assets under management, and the standard incentive (performance-based) fee is 5% (annual) of realized and unrealized capital appreciation, with a high water mark.

PAAMCO U.S. does not receive a management or incentive fee with regard to the Separate Funds advised by PAAMCO. Each Subadviser generally receives management fees in the range of 0.63 – 1.5% and incentive fees in the range of 0 – 20%. In certain situations, a Subadviser may not receive a management fee, and the Subadviser's compensation may take the form of a draw or advance on its performance fee. PAAMCO U.S. negotiates such fees with

each Subadviser independently, and such fees are ultimately approved by the Board of Directors of the respective fund.

For Client-Directed Managed Account Services, PAAMCO receives a monthly service fee, which is determined with respect to the client's assets under management with PAAMCO under the Client-Directed Managed Account Services and the amount of assets, if any, that PAAMCO is managing on a discretionary basis. This fee is initially set at 0.50% per annum with tiered break points as assets exceed specific thresholds.

PAAMCO U.S.'s fees and its compensation for its Advisory Clients are negotiated on a case-by-case basis.

The standard management fee for accounts managed by PAAMCO Direct Trading division's emerging markets mandate is 0.9% (annual) of assets under management.

PAAMCO U.S.'s fees and compensation may be negotiated and thus may vary from the standard fee schedules noted above.

PAAMCO U.S. generally deducts fees from Clients' assets, but may bill Advisory Clients for fees. For PAAMCO Clients launched before July 1, 2017, fees are generally payable monthly, quarterly, semi-annually or annually in arrears. For PAAMCO Clients launched on or after July 1, 2017, it is expected that those PAAMCO Clients will generally pay fees in advance. Payment terms may be negotiated.

Each investor in a PAAMCO Client Account also pays its pro rata portion of the PAAMCO Client Account's and/or underlying Investment Funds' ongoing expenses. Ongoing expenses include transaction (e.g., brokerage commissions), administrative, insurance, fidelity bonds, custody, legal, tax preparation, audit and accounting expenses, the fees and expenses of third-party service providers as may be considered necessary by PAAMCO U.S., pricing and valuation agents and other expenses that are reasonably incurred in connection with the operation of the business and maintenance of the PAAMCO Client Accounts and/or underlying Investment Funds. In certain cases, a Manager may pay the costs associated with insurance and the fidelity bond, if any. Advisory Clients may also incur similar expenses.

Each Client also pays its *pro rata* portion of the management fees, incentive fees or allocations, redemption fees, and expenses in respect of each Investment Fund in which such Client is invested.

Each PAAMCO Direct Trading Client pays its own brokerage fees, stamp duties and other charges and or expenses (together with any value added, goods and services, sales or other tax applicable) or reimburses PAAMCO U.S. for such expenses it incurs on the PAAMCO Direct Trading Client's behalf.

If a particular Client and PAAMCO U.S. adopt a fee arrangement that calls for payment of fees in advance, upon redemption or termination of the advisory relationship or upon investment other than at the beginning of the normal investment cycle, PAAMCO U.S. will refund fees for the period of time that PAAMCO U.S. did not provide advisory services and/or charge that Client (or the investors in such Client) only for the actual period of time that PAAMCO U.S. provided advisory services.



PAAMCO Europe and PAAMCO Asia each receive fees for services from PAAMCO U.S. and do not receive any fees from any Clients. In addition, PAAMCO Europe and PAAMCO Asia receive a percentage of management fees, incentive fees and/or other fees paid to PAAMCO U.S. by any PAAMCO U.S. client referred by PAAMCO Europe and PAAMCO Asia, respectively. PAAMCO Turkey, PAAMCO Mexico and PAAMCO Colombia each receive fees for services from PAAMCO Europe and do not receive any fees from any Clients.

Please see the response to Item 12 for additional information about brokerage commissions.

Neither PAAMCO nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

#### **Item 6. Performance-Based Fees and Side-by-Side Management**

As stated in Item 5 above, PAAMCO U.S. charges some Clients performance-based fees, which are fees based on a share of capital gains on or capital appreciation of the Client's assets. The fact that PAAMCO U.S. is compensated based on trading profits creates an incentive for PAAMCO U.S. to make investments on behalf of certain Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance-based fee received by PAAMCO U.S. is based primarily on realized and unrealized gains and losses. As a result, the performance-based fee earned could be based on unrealized gains that Clients may never realize. Because PAAMCO U.S. receives performance-based fees from some Clients and not from others, there is a conflict of interest between PAAMCO's financial incentive to favor the higher fee-paying account and its duty to treat all clients fairly

PAAMCO has adopted controls that are intended to ensure that no Clients are favored or disadvantaged on the basis of fees. PAAMCO's general allocation policy is to allocate investments and redemptions in Investment Funds based on the appropriateness of the purchase or sale of a particular Investment Fund for each Client. PAAMCO may consider not only its clients' guiding allocation objectives, but may also consider specific circumstances related to an account or an investment, including, among other considerations, cash available for investment in each client account, regulatory restrictions (such as capacity for investments subject to ERISA (as defined below)), timing of notice for subscription or redemption for each client account, allocation to Investment Funds with similar market exposures, asset mix of each account, objectives and restrictions of each account, regulatory considerations, *de minimis* investment amounts, investment style and other investment considerations. As a result, PAAMCO may give advice or take action with respect to one Client which may differ from the advice given or action taken with respect to another Client having similar or differing investment objectives. Reallocations to and from Investment Funds may cause Clients to crystallize and pay the Managers performance fees and reset Investment Funds' high water marks.

In the case where limited investment or redemption capacity is available for a given Investment Fund, PAAMCO's most commonly used methodologies to allocate investment opportunities to Clients over time on a fair and equitable basis are pro rata and "fill/drain the pool." In applying a "fill the pool method," Clients in the pool with the smallest percentage allocation receives a fractional capacity amount until it is brought even with the next smallest participant, and so on, until the investment opportunity is filled, subscription demand is exhausted, or a minimum investment target is reached.

Further, where an investor submits a full redemption to liquidate a Client Separate Account, PAAMCO may allow another PAAMCO Client to acquire all active Investment Funds from which the Client Separate Account would otherwise redeem, where such Investment Funds are not currently in liquidation. In situations where multiple PAAMCO Clients could acquire all the aforementioned active Investment Funds in the aggregate, the Investment Funds would be allocated on a *pro rata* basis among such Clients.

Certain PAAMCO Client Accounts are treated as “plan assets” for purposes of the fiduciary responsibility standards and prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the parallel prohibited transaction excise tax provisions of Section 4975 of the Internal Revenue Code of 1986. For compliance and other reasons, certain Investment Funds may limit the amount of the investment made by a “plan assets” fund, or may prohibit such investments altogether. As a result, allocations of investments to and redemptions from Investment Funds for “plan assets” and non-“plan assets” may be different due to the ability or inability of different Investment Funds to accept assets subject to ERISA.

A sector specialist for PAAMCO’s Fund of Hedge Funds division’s distressed debt sector also serves as co-portfolio manager for Prisma’s Apex Credit strategy (the “Co-PM”) and serves on its investment committee. In his capacity as sector specialist for PAAMCO’s Fund of Hedge Funds division’s distressed debt sector, the Co-PM may become aware of certain co-investment opportunities through third party managers of underlying distressed funds. If a particular co-investment opportunity is appropriate for PAAMCO Client Accounts, such investment opportunity will first be allocated on a *pro rata* basis to PAAMCO Client Accounts that are eligible to participate based on consideration of specific circumstances related to an account or an investment, including, among other considerations, cash available for investment in each PAAMCO Client Account (generally determined as of the time the investment is expected to close or require a commitment), regulatory restrictions, timing of notice for subscription or redemption for each PAAMCO Client Account, *de minimis* investment amounts, asset mix of each account, allocations to investment funds with similar market exposures, objectives and restrictions of each account, investment style and other investment considerations. If, after the process above, additional capacity remains, such co-investment opportunities may be presented to the Prisma Apex team for independent review and assessment. In any event, PAAMCO Client Accounts will receive priority to participate in co-investment opportunities sourced by the Co-PM. The allocation process for co-investments will be documented by PAAMCO’s Investment Operations Department. In addition, the process may be reviewed periodically by the conflicts committee created by PAAMCO and Prisma that is described in more detail in Item 10 below (“Conflicts Committee”). Prisma is not expected to share co-investment opportunities with PAAMCO and its Clients.

For any co-investment opportunities presented to PAAMCO other than in the circumstances described above, PAAMCO Client Accounts will participate in such co-investment opportunities in accordance with PAAMCO’s allocation policy.

## **Item 7. Types of Clients**

PAAMCO U.S. serves as a manager, adviser and/or subadviser to domestic and offshore limited partnerships, limited liability companies and companies that are single-member funds or pooled investment vehicles, as well as separately managed accounts. PAAMCO U.S. also provides consulting services on Investment Fund investments to a limited number of institutional clients. These institutional clients include pension plans, endowments, and other institutions.

PAAMCO Europe and PAAMCO Asia currently provide advisory services only to PAAMCO U.S. Additionally, PAAMCO Direct Trading manages and trades portfolios of securities on behalf of a separately managed account.

In general, the minimum initial investment amount for a separately managed account by PAAMCO's Direct Trading division or a Client Separate Account is \$100 million. Each Client Commingled Fund also has a minimum required initial investment amount, which generally ranges from \$1,000,000 to \$5,000,000. Investors may generally not effect a partial redemption if, after such redemption, the net asset value of their investment would be less than the applicable minimum investment amount. The foregoing investment minimums may be waived or modified in the sole discretion of PAAMCO U.S. (or, in the case of PAAMCO Client Accounts that have a separate board of directors, general partner or managing member, then the board of directors, general partner or managing member of those funds).

Each investor in a PAAMCO Client Account or a Separate Fund must generally be an "accredited investor" as defined in Regulation D under the Securities Act of 1933 and a "qualified purchaser" as defined in the Investment Company Act of 1940. In the case of certain offshore funds, non-U.S. investors generally need not be "accredited investors" or "qualified purchasers" so long as each such non-U.S. investor is not a "U.S. person" as defined in Regulation S under the Securities Act of 1933, as amended. Certain PAAMCO Client Accounts impose other eligibility requirements in addition to those discussed above.

#### **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

PAAMCO Direct Trading pursues a long-only strategy in order to achieve long-term capital appreciation. The PAAMCO Direct Trading investment process combines various methods of analysis including fundamental, technical, quantitative modeling, and macro-economic analysis. Fundamental analysis of multiple factors, including earnings growth prospects, financial strength, cash flow generation, capital allocation, competitive market position, and profitability, is conducted by the PAAMCO Direct Trading division. Sources of information analyzed include annual and quarterly reports, prospectuses, filings with various regulators, company press releases and conference calls, third-party research, reports and industry conferences, company interviews, websites and financial publications.

For PAAMCO's Fund of Hedge Funds division, the PAAMCO Client Accounts pursue their investment objectives by investing substantially all of their assets in a variety of Investment Funds covering many different investing styles. PAAMCO systematically evaluates Investment Fund managers ("Managers," which, for the avoidance of doubt, includes Subadvisers) with an approach involving personal interviews in the Managers' offices, phone interviews, and analysis of documents provided by the Managers. Each Manager's investment strategy, portfolio management skills and performance are analyzed. Investment Fund management firms are monitored through contact both in their offices and through phone calls and electronic communications.

In addition to its investment reviews led by sector specialists, PAAMCO also conducts a legal review, an operational due diligence review, and a risk data review. If a Manager does not pass any one of these reviews, it will typically not be considered for investment. Prospective Managers are presented to the Investment Oversight Committee ("IOC") for a vote on eligibility for investment. The IOC is comprised of senior staff members in each of PAAMCO's offices from Portfolio Management, Account Management, Risk Management, Compliance and Investment Operations. The IOC serves as an integrity check to seek to ensure that the due diligence

process is complete, meets PAAMCO standards, and that the terms agreed to are consistent with PAAMCO's investment policies, restrictions and guidelines. The IOC then votes to make the Manager eligible for investment. The IOC meets monthly and has full veto power over any potential Manager hire.

The construction of moderate multi-strategy portfolios is the responsibility of the Portfolio Construction Group ("PCG"). The PCG receives input from a top-down perspective regarding trends and opportunities in the capital markets from PAAMCO's Strategy Allocation Committee ("SAC") and from a bottom-up perspective, regarding opportunities in their respective sectors, from each of the sector specialists. The PCG has the authority to allocate capital to different sectors, styles and opportunities as it sees fit. Changes to the allocation can be made on a monthly basis. Note the sector specialist determines the weight of an Investment Fund within his or her allocation and makes the hire and fire decision, subsequent to IOC approving the Manager of such Investment Fund as eligible.

For customized client portfolios, the PAAMCO account manager makes the decision to allocate to Investment Funds based on the client's stated preferences and the allocation must fit within the client's investment guidelines and risk tolerances.

The discussion above summarizes our investment process in effect as of the date of this Brochure. We have previously refined our investment process and expect to continue to refine our investment process from time to time. We may make material modifications to our investment process without notice to our Clients.

PAAMCO U.S. provides advice to Advisory Clients regarding investing in hedge funds.

The Managers employ investment strategies that cover a broad range of asset classes including private funds and other investment styles and strategies. PAAMCO generally divides the private fund universe into the following sectors: Convertible Bond Hedging, Distressed Debt, Event-Driven Equity, Equity Market Neutral, Fixed Income Relative Value, Long/Short Credit, Long/Short Equity, and Opportunistic. PAAMCO's investment staff is divided into teams led by a sector specialist who is supported by associates and analysts. Each team focuses on one of these investment categories:

- Convertible Bond Hedging: The convertible bond hedging sector seeks to generate profits by exploiting the change in relationship between a convertible bond and the underlying equity as the price of the underlying equity changes (i.e., aiming to profit from the equity volatility in a hedged fashion). Typically the trade is to be long a convertible bond and short a modeled ratio of stock against it. As the stock moves, the hedge ratio changes and stock is shorted or covered depending on the movement of the stock. The sector also incorporates other hedged trades and aims to make money by exploiting relationships or dependencies within and between asset classes while avoiding direct market bias or directionality.
- Distressed Debt: Managers that focus on distressed debt strategies invest in the securities of companies that are experiencing financial or operational difficulties. Typically, based on manager style, a distressed debt hedge fund invests in bank debt, corporate debt, trade claims, common stock, or warrants. Distressed situations can include reorganizations, bankruptcies, distressed sales, and other corporate restructurings. The mispricing of these securities often occurs because traditional buyers often must sell the securities of troubled companies. When this

happens, distressed debt Managers attempt to capture substantial discounts to securities' intrinsic value.

- Event-Driven Equity: This broad strategy area focuses on event-driven trades implemented mainly through equity positions. In executing this strategy, Managers seek to profit from discontinuities in the valuation of securities caused by "events." These discontinuities may occur as a result of pending traditional merger and acquisitions negotiations, but also through pending restructurings, reorganizations, spin-offs, asset sales, liquidations and share class or company holdings being discounted.

In the case of merger arbitrage, typically the trade is to buy the equity of the target and sell short the equity of the acquirer, making a profit (capturing the "merger spread") if the deal closes as expected. Managers may go long or short the affected securities and will generally seek to hedge out risk on a position by position basis; in addition many managers have overlay hedges at the portfolio level.

- Equity Market Neutral: Equity market neutral Managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures. Portfolios are generally constructed to be neutral across sectors, industries, and investment styles. Many equity market neutral Managers use sophisticated, computer-run quantitative models to select stocks. These models are used to create both a statistical advantage in picking stocks and a strategic advantage in controlling exposure to systemic risk.
- Fixed Income Relative Value: Managers employing these strategies seek to capture profit from structural inefficiencies in global, high-grade fixed income, foreign exchange, and relevant derivatives markets. Managers can utilize macro strategies which rely on directional views based on policy or market technicals to create alpha. Managers can also employ financial leverage to take advantage of pricing discrepancies between closely linked fixed income instruments. Generally, these strategies are positioned with moderate risk and attempt to take advantage of volatility and trends in interest rates, foreign exchange, and high-grade fixed income bond markets.
- Long/Short Credit: This area focuses on fixed income securities where the majority of the return is derived from corporate credit exposure and selection as opposed to the general term structure of interest rates. Strategies utilized by long/short credit include the purchase or short sale of stressed and distressed bonds, bank loans, high-yield debt and securities from recently reorganized firms (including equities). Long/short credit Managers employ a wide variety of strategies to invest across the capital structure on a long and short basis. Typically, Managers take positions as a result of bottom-up, fundamental credit analysis on the company and its capital structure. The strategy attempts to capitalize on inefficiencies in the marketplace while maintaining a lower degree of cyclicity and directionality than a typical distressed debt investment.
- Long/Short Equity: Long/short equity Managers construct net long or net short portfolios by using equity hedging strategies. These strategies typically involve taking a long position in a stock while shorting an individual stock or broad based

market instrument. Net and gross exposures are managed in order to take advantage of both current market conditions and the resulting investment opportunity set. Long/short equity Managers use short positions to hedge against a general stock market decline as well as to generate alpha.

- Opportunistic Investments: This area aims to capitalize on exposures that lie outside of other sectors or that take advantage of shorter term dislocations. Investments are typically made via focused mandates with asset-class specific, specialist Managers. Opportunistic investments may also include hedging mandates or the pursuit of other asymmetric investments.

In addition to pursuing one or more of the above strategies, one or more Managers may also engage in an activist strategy (the “Activist Strategy”), which involves shareholder activism that will attempt to influence the directors and/or management of target companies.

Risks Related to an Investment with PAAMCO include:

Investing in securities involves a risk of loss that investors in PAAMCO Client Accounts and Advisory Clients should be prepared to bear. There are material risks associated with the fund of funds structure and with the investment strategies employed by the Managers of the Investment Funds. Some of these risks are described below and risks specific to a specific strategy or structure are further described in the offering documents for the PAAMCO Client Accounts and the Separate Funds advised by PAAMCO. These risks may also apply to Advisory Clients where PAAMCO U.S. recommends the investment of Client assets in Investment Funds.

*Investment Risks in General.* PAAMCO Client Accounts will engage in speculative investment strategies through their investment in the Investment Funds. The prices of securities and other assets in which the Investment Funds will invest may be volatile. Market movements are difficult to predict and are influenced by, among other things, government trade, fiscal, monetary and exchange control programs and policies; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the inherent volatility of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in the financial instrument and currency markets, and such intervention (as well as other factors) may cause these markets and related investments to move rapidly.

*Investment Selection.* Each Investment Fund will acquire investment assets that have not yet been identified. Accordingly, prospective clients do not have an opportunity to review the terms upon which any assets are acquired prior to investing with PAAMCO. The likelihood that a client will realize gain depends on the skill and expertise of PAAMCO in selecting Subadvisers and/or Investment Funds and of a Subadviser in investing its SP’s assets.

Some Subadvisers select investments in part on the basis of information and data filed by the issuers of such securities with various government regulators or made directly available to the Subadvisers by the issuers of securities or through sources other than the issuers. A Subadviser is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not readily available.

*Multi-Manager Concept.* As noted above, the PAAMCO Client Accounts invest substantially all of their assets in Investment Funds. While providing PAAMCO clients with diversification, this multi-Manager approach also exposes PAAMCO clients to several layers of

fees and expenses. In addition to the management fees and performance fees, if any, charged by PAAMCO U.S., each Investment Fund may charge a management fee and/or a performance fee and may incur expenses. These fees and expenses reduce the returns generated by the PAAMCO Client Accounts and may, in the aggregate, be higher than fees and expenses charged by Investment Funds of a single Manager.

Moreover, because the PAAMCO Client Accounts invest in Investment Funds whose Managers make their trading decisions independently, it is theoretically possible that one or more of such Managers may, at any time, take investment positions that are opposite of positions taken by other Managers. It is also possible that these Managers may, on occasion, be competing with each other for similar positions at the same time. Also, a particular Manager may take positions for its other clients that are opposite to positions taken for the Investment Fund in which a PAAMCO Client Account invests.

*Investment Strategies.* The success of the PAAMCO Client Accounts depends on PAAMCO's ability to select and allocate assets to individual Investment Funds, including PAAMCO-only Investment Funds. Success also depends on each Investment Fund's ability to select individual investments, to correctly interpret market data, predict future market movements and otherwise implement its investment strategy.

PAAMCO will actively allocate and reallocate assets among various Investment Funds. There can be no assurance that the PAAMCO Client Accounts will always be able to invest in a particular Investment Fund. No assurance can be given that the investment strategies to be used by the PAAMCO Client Accounts or an Investment Fund will be successful under all or any market conditions.

*Dependence on Managers.* Neither PAAMCO nor a PAAMCO Client Account will have direct control over a PAAMCO Client Account's assets once they are allocated to Investment Funds; therefore, a PAAMCO Client Account is highly dependent upon the expertise and abilities of the Managers who have investment discretion over a PAAMCO Client Account's assets invested with them. Therefore, the death, incapacity or retirement of the Manager of any Investment Fund or its principals, as well as the investment decisions made by any Manager or its principals, may adversely affect investment results of a PAAMCO Client Account. Furthermore, while PAAMCO analyzes Investment Funds and their Managers prior to a PAAMCO Client Account investing with them, and while PAAMCO monitors the performance of the Investment Funds and generally receives portfolio information from each Manager retained on behalf of a PAAMCO Client Account, the information PAAMCO receives may not always be complete or accurate. As such, it may not be possible for PAAMCO to uncover fraudulent activity perpetrated by one or more Investment Funds or their Managers.

*Segregated Portfolio Structure Untested.* Each segregated portfolio company can operate its segregated portfolios with the benefit of statutory segregation under Cayman Islands law of assets and liabilities between each segregated portfolio. Although not judicially tested, the principal advantage of a Cayman Islands segregated portfolio company is that it protects the assets of one segregated portfolio from the liabilities of other segregated portfolios under the law of the Cayman Islands. However, it is uncertain whether such segregation of assets and liabilities would be enforced in jurisdictions outside of the Cayman Islands.

*Limited Asset Allocation Flexibility.* A PAAMCO Client Account is restricted in its ability to allocate capital and control risk given various limitations on the liquidity of Investment Funds. Investment Funds may permit redemptions only on a semi-annual, annual, or less frequent basis

and/or be subject to “lock-ups” (where investors are prohibited from redeeming their capital for a specified period following investment in such fund or, in certain cases, subject to a redemption fee with respect to any redemptions during such period) and/or “gates.” A PAAMCO Client Account could be unable to redeem its capital from Investment Funds in which it invests for an extended period after PAAMCO has determined that the Manager operating such Investment Fund has begun to deviate from its announced trading policies and strategy.

*Reliability of Valuations.* A PAAMCO Client Account’s interest in an Investment Fund is generally valued at an amount equal to a PAAMCO Client Account’s pro rata interest in such Investment Fund, as determined pursuant to the instrument governing such Investment Fund, and reported by the Manager of the relevant Investment Fund or its administrator. As a general matter, the governing instruments of the Investment Funds provide that any securities or investments that are illiquid, not traded on an exchange or in an established market, or for which no value can be readily determined are assigned such fair value as the respective Managers may determine in their judgment based on various factors, which include, but are not limited to, dealer quotes or independent appraisals, and may include estimates. A PAAMCO Client Account generally relies on these valuations in calculating a PAAMCO Client Account’s net asset value for reporting, withdrawals, fees and other purposes. Such valuations may not be indicative of what actual fair market value would be in an active, liquid, or established market.

*Variations in Valuation.* The value of an instrument held by one Separate Fund advised by PAAMCO may vary from the value of the same or a similar instrument held by another Separate Fund advised by PAAMCO for various reasons including, but not limited to, the pricing vendors used and/or pricing methods adhered to by the administrator of one Separate Fund advised by PAAMCO versus the administrator used by another Separate Fund advised by PAAMCO.

*Early Stage or Emerging Managers.* A PAAMCO Client Account will often directly or indirectly invest a portion of its assets in Investment Funds managed by “Early Stage” or “Emerging Managers.” PAAMCO generally classifies a Manager as early stage or emerging if it is less than two years old and/or has less than \$500 million in assets under management at the time of initial investment by the first Client. Early Stage or Emerging Managers may have less experience managing their respective Investment Funds and in operating an investment management firm than other Managers that have been in business for a longer period of time. The relatively shorter operational experience of Early Stage or Emerging Managers could lead to greater losses for their respective Investment Funds and for a PAAMCO Client Account than if a PAAMCO Client Account had invested in funds managed by more experienced Managers under similar circumstances.

*Client-Directed Managed Account Services.* With respect to Client-Directed Managed Account Services, PAAMCO performs operational due diligence on each Manager. However, PAAMCO will generally not provide investment advice regarding the selection of the Manager, propose investment guidelines, perform investment risk analytics or otherwise monitor an Investment Fund from an investment performance standpoint. PAAMCO’s duties with respect to the provision of Client-Directed Managed Account Services are limited and, accordingly, PAAMCO has no liability to the investor/client, its members or shareholders or otherwise for the selection of the Manager to an Investment Fund, the decision to invest in an Investment Fund, the investment performance of an Investment Fund or for the failure to redeem from an Investment Fund.

*Third-Party Data.* In performing its duties with respect to clients, PAAMCO will rely upon information provided by the Investment Funds, the Managers or Subadvisers to the Investment



Funds, their respective agents and representatives and other third parties (all such information, the "Third-Party Data"). PAAMCO makes no representations or warranties to any investor with regard to any Third-Party Data or any derivative information and analyses based on such Third-Party Data, including, but not limited to, any warranty as to the general accuracy, time accuracy, historical accuracy, completeness, integrity or any other aspect of the Third-Party Data or its content. PAAMCO will also be entitled to rely upon such Third-Party Data in performing its duties with respect to clients.

*Risk Management Control Issues.* Managers of the Investment Funds may use proprietary investment strategies that are not fully disclosed to PAAMCO. These strategies may involve risks under certain market conditions that have not been anticipated by the Managers of the Investment Funds. PAAMCO's inability to control the frequency, quantity or quality of information obtained from Investment Funds regarding their investment portfolios may make it difficult or impossible for PAAMCO to implement its risk management strategies as intended. There can be no assurance or guarantee that an Investment Fund, and, therefore, a PAAMCO Client Account, will be profitable even if PAAMCO is able to implement its risk management strategies as intended.

*Concentration Risk.* PAAMCO, from time to time, consults with its Subadvisers or Managers of the Investment Funds about making tactical changes that are often short-term in nature, such as the decision to exceed an investment guideline by making concentrated investments, increasing or decreasing exposure to a specific asset class, increasing or decreasing exposure to a theme and/or increasing or decreasing a hedge position in an Investment Fund. Concentrating the assets of a PAAMCO Client Account or an Investment Fund in a specific asset class, theme or financial instrument means there is less diversification in that portfolio and a change in the asset class, theme or financial instrument could be magnified as a result of such concentration.

Risks Related to the Investment Funds and the Direct Trading Division. The following risks apply to investments by Investment Funds and PAAMCO Direct Trading, where applicable:

*Equity Securities.* The value of the securities held by a Client, directly or through the Investment Funds, is subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. A Client's net asset value will increase and decrease, reflecting fluctuations in the value of securities underlying the securities held by such Client or by an Investment Fund in which such Client is invested.

*Short Selling.* Some of the Investment Funds will engage in short selling, both as part of their general investment strategy and for hedging purposes. Short selling involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows an Investment Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. An Investment Fund's obligations under its securities loans will be marked to market daily and collateralized by that Investment Fund's assets held at the broker, including its cash balance and its long securities positions. Because securities loans must be marked to market daily, there may be periods when the securities loan must be settled prematurely, and a substantial loss would occur.

Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes an Investment Fund to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

*Debt and Other Income Securities.* Some of the Investment Funds may invest in fixed-income and adjustable rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

The debt securities in which the Investment Funds may invest are not necessarily required to satisfy any minimum credit rating standard, and may include instruments that are considered to be of relatively poor standing and have predominantly speculative characteristics with respect to capacity to pay interest and repay principal. The Investment Funds may invest in bonds rated lower than investment grade, which may be considered speculative. The Investment Funds may also invest a substantial portion of their assets in high-risk instruments that are low rated or unrated. *Mortgage-Related Securities.* Mortgage-related securities are collateralized by residential or commercial mortgages or pools of residential or commercial mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. These securities may include complex instruments such as collateralized mortgage obligations, stripped mortgage-backed securities ("SMBS"), mortgage pass-through securities, interests in real estate mortgage investment conduits, as well as other real estate related securities, which are subject to credit risks associated with the performance by the mortgagors. Additionally, the mortgage-related securities in which the Investment Funds invest may include those with fixed, adjustable, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The mortgage-related securities in which the Investment Funds invest may also relate to balloon mortgages.

*Convertible Securities.* Some Clients will invest, directly or indirectly through an Investment Fund, in convertible securities ("Convertibles"), which are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit

spread expansion and ultimately default risk, as discussed below. Convertibles are also prone to liquidity risk as demand can dry up periodically, and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock.

In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (redeem) the Convertible. An issuer may convert or call a Convertible when it is disadvantageous for an Investment Fund, causing that Investment Fund to lose an opportunity for gain. For other Convertibles, an Investment Fund can choose when to convert the security to common stock or to put (sell) the Convertible back to the issuer.

Because convertible arbitrage also involves the short sale of underlying common stock, the strategy is also subject to stock-borrow risk, which is the risk that the Investment Fund and/or the Client will be unable to sustain the short position in the underlying common shares.

*High-Yield Securities.* Investment Funds may invest in high-yield securities, which are generally unrated or rated below investment grade and may be considered speculative. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, an Investment Fund may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities (which react primarily to fluctuations in the general level of interest rates) and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. A major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

*Distressed Securities.* An Investment Fund may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they may also offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate,

economic factors affecting a particular industry or specific developments within such companies. In addition, often there is no minimum credit standard that is a prerequisite to an Investment Fund's investment in any instrument, and a significant portion of the obligations and securities in which an Investment Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is particularly high. There is no assurance that a Manager will correctly evaluate the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which an Investment Fund or SP invests, the Investment Fund or SP may lose the entire investment, may be required to accept cash or securities with a value less than the Investment Fund's or SP's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Investment Fund's or SP's investments in such securities may not compensate the Investment Fund or SP adequately for the risks assumed.

*Foreign Sovereign Debt.* Sovereign debt includes bonds that are issued by foreign governments or their agencies, instrumentalities or political subdivisions or by foreign central banks. Sovereign debt also may be issued by quasi-governmental entities that are owned by foreign governments but are not backed by their full faith and credit or general taxing powers. Investment in sovereign debt involves special risks. The issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal and/or interest when due in accordance with terms of such debt, and an Investment Fund may have limited legal recourse in the event of a default because, among other reasons, remedies must be pursued in the courts of the defaulting party. In addition, political conditions, especially a sovereign entity's willingness to meet the terms of its debt obligations, are of considerable significance.

A sovereign debtor's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward principal international lenders and the political constraints to which a sovereign debtor may be subject.

The occurrence of political, social or diplomatic changes in one or more of the countries issuing sovereign debt could adversely affect an Investment Fund's or SP's investments. Political changes or a deterioration of a country's domestic economy or balance of trade may affect the willingness of countries to service their sovereign debt.

*Non-U.S. Exchanges and Markets.* A Client, directly or indirectly through an Investment Fund, may engage in trading on non-U.S. exchanges and markets. Trading on such exchanges and markets may involve certain risks not applicable to trading on U.S. exchanges and is frequently less regulated. For example, certain of those exchanges may not provide the same assurances of the integrity (financial and otherwise) of the marketplace and its participants, as do U.S. exchanges. There also may be less regulatory oversight and supervision by the exchanges themselves over transactions and participants in such transactions on those exchanges. Some non-U.S. exchanges, in contrast to U.S. exchanges, are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has dealt and is not the responsibility of an exchange or clearing association. Furthermore, trading on certain non-U.S. exchanges may be conducted in such a manner that all participants are not afforded an equal opportunity to execute certain trades and may also be subject to a variety of

political influences and the possibility of direct government intervention. Investment in non-U.S. markets would also be subject to the risk of fluctuations in the exchange rate between the local currency and the dollar and to the possibility of exchange controls. Foreign brokerage commissions and other fees are also generally higher than in the United States.

*Non-U.S. Investments.* Investment in non-U.S. issuers or securities principally traded outside the United States may involve certain special risks due to economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive, accounting reporting and disclosure requirements than domestic issuers. The securities of some foreign governments and companies and foreign securities markets are less liquid and at times more volatile than comparable U.S. securities and securities markets. The foregoing risks associated with non-U.S. investments are even greater in emerging markets.

*Currency Risk.* The value of a Client's assets, directly or indirectly through an Investment Fund, may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred when a Client or an Investment Fund changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments. An Investment Fund or SP may enter into "hedges" against some of these fluctuations, but such hedges, if available for the size of the transactions involved, may be prohibitively costly and may not protect against some of the more significant risks.

*Derivatives Risk.* Certain Investment Funds trade derivatives ("Derivatives"). These are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, including, but not limited to, stocks, bonds, commodities, currencies, interest rates and market indices. The Derivatives the Investment Funds may use include, without limitation, futures, options, swaps and swaptions.

Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular Derivative and the portfolio as a whole. Derivatives permit an Investment Fund to increase or decrease the level of risk, or change the character of the risk, to which its portfolio is exposed in much the same way as an Investment Fund can increase or decrease the level of risk, or change the character of risk, of its portfolio by purchasing or selling specific securities.

If an Investment Fund trades Derivatives at inopportune times or if its Manager judges market conditions incorrectly, such investments may lower that Investment Fund's return or result in a loss. An Investment Fund also could experience losses if its Derivatives were poorly correlated with its other investments or if the Investment Fund were unable to liquidate its position because of an illiquid secondary market. The market for many Derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for Derivatives.

*Futures Contracts and Options on Futures Contracts.* In entering into futures contracts and options on futures contracts, there is a credit risk that a counterparty will not be able to meet its obligations to an investing Investment Fund. The counterparty for futures contracts and options on futures contracts traded in the United States and on most non-U.S. futures exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the non-performance by one of its members and, as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members (i.e., some non-U.S. exchanges), it is normally backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing member or clearinghouse will be able to meet its obligations to an Investment Fund.

*Option Transactions.* The purchase or sale of an option by one or more Investment Funds involves the payment or receipt of a premium payment and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security or other instrument in excess of the premium payment received.

*OTC Transactions.* Certain Investment Funds may invest in derivative instruments that are not traded on organized exchanges and, as such, are not standardized. These transactions are known as over-the-counter ("OTC") transactions. In general, there is less governmental regulation and supervision in the OTC markets than of transactions entered into on an organized exchange. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with OTC transactions. This exposes an Investment Fund to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. In addition, an Investment Fund will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy, governmental prohibition or other causes, which could subject the Investment Fund, and thus a PAAMCO Client Account, to losses.

*Derivative Counterparty Risk.* A Investment Fund's use of Derivatives involves the risk that the other party to the Derivative contract will fail to make required payments or otherwise to comply with the terms of the contract. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a Derivative contract due to financial difficulties, an Investment Fund may experience significant delays in obtaining any recovery under the Derivative contract in a bankruptcy or other proceeding. The Investment Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. An Investment Fund may trade Derivatives by means of a prime broker or an executing broker and is subject in either case to counterparty risk with respect to the broker. Although an Investment Fund manager may attempt to mitigate the default risk to the Investment Fund through careful counterparty selection and proper monitoring and risk management, counterparty defaults may still occur and any such occurrence may result in losses to the Investment Fund.

*Swaps.* Certain Investment Funds enter into swap transactions. Swap agreements historically have been OTC, two-party contracts entered into primarily by institutional investors for

periods typically ranging from a few weeks to more than one year. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. There are various types of swaps, including but not limited to, total return swaps, credit default swaps and interest rate swaps; all of these and other swaps are derivatives and as such, each is subject to the general risks relating to derivatives described above.

*Failure of Prime Broker, Other Broker-Dealers and Banks.* Institutions, such as brokerage firms or banks, may hold certain of a Client's assets (either directly or indirectly through an Investment Fund) in "street name." Bankruptcy, inadequate controls or fraud at one of these institutions, in particular, an Investment Fund's or Client's prime broker, which may hold the majority of that Investment Fund's or Client's assets, could impair the operational capabilities or the capital position of that Investment Fund or Client. In addition, as an Investment Fund or Client may borrow money or securities or utilize operational leverage with respect to its assets, that Investment Fund or Client will post certain of its assets as collateral securing the obligations or leverage ("Margin Securities"). Some or all of the Margin Securities may be available to creditors of that Investment Fund's or Client's prime broker in the event of its insolvency. In addition, there may be substantial delays in the repayment of that Investment Fund's or Client's assets in the event that the prime broker were to become insolvent, as well as a risk of total loss of such assets.

*Cash Positions.* A substantial portion of a Client's assets may, from time to time, be maintained in cash or cash-equivalent investments. Although such a practice may assist in the preservation of capital, the assumption of cash positions may also impact overall investment return.

*Activist Strategy.* One or more Investment Funds may engage in an activist strategy ("Activist Investment Fund"), which involves shareholder activism that will attempt to influence the directors and/or management of target companies. While PAAMCO will attempt to create guidelines for the Manager(s) of the Activist Investment Fund(s) as to the amount of such an Activist Investment Fund's net asset value that may be dedicated to the activist strategy and some limits as to the types of actions that such Manager may take in pursuit of such activist strategy, there are risks associated with an activist strategy.

There exists the risk that the intended strategy for a particular company will be unsuccessful. Further, when securities are purchased in anticipation of influencing the future direction of a company, a substantial period of time may elapse between an Activist Investment Fund's purchase of the securities and the anticipated results. During this period, a portion of an Activist Investment Fund's capital would be committed to the securities purchased, and the Activist Investment Fund may finance some portion of such purchases with margin proceeds or other borrowed funds on which it must pay interest.

Additionally, if the anticipated results do not in fact occur, the Manager of an Activist Investment Fund may be required to sell that Activist Investment Fund's investment at a loss. There may be instances where such manager will be restricted in transacting or redeeming a particular investment for that Activist Investment Fund (including the target companies and possibly other companies in the portfolio) as a result of pursuing an activist strategy. Any such restrictions in trading could be detrimental to that Activist Investment Fund when such Manager is unable to place orders to purchase or sell the securities of the affected investment. Because there is substantial uncertainty concerning the outcome of transactions involving the target

companies in which a Manager of an Activist Investment Fund may invest strategy, there exists a potential risk of loss by that Activist Investment Fund of its entire investment in such companies.

*Special Situations.* Certain Investment Funds may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which will be less than the purchase price to the Investment Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Investment Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which an Investment Fund may invest, there is a potential risk of loss by the Investment Fund of its entire investment in such companies.

*Cross-Tranche Liability.* Notwithstanding the fact that an Investment Fund may issue multiple classes of shares or interests, the Investment Fund is one legal entity. Thus, all the assets of that Investment, and each class thereof, are available to meet all of the liabilities of that Investment Fund.

*Leverage; Interest Rates.* Certain Investment Funds seek to enhance returns through the use of leverage, which can be described as exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. Additionally, leverage may involve borrowing by an Investment Fund to buy securities on margin or make other investments. Leverage magnifies both the favorable and unfavorable effects of price movements in the investments of an Investment Fund, which may subject the Investment Fund, and thus the PAAMCO Client Accounts, to a substantial risk of loss. In the event of a sudden, precipitous drop in value of an Investment Fund's assets occasioned by a sudden market decline, it might not be able to liquidate assets quickly enough to meet its margin or borrowing obligations. Also, because acquiring and maintaining positions on margin allows the Investment Fund to control positions worth significantly more than its investment in those positions, the amount that it stands to lose in the event of adverse price movements is high in relation to the amount of its investment. In addition, since margin interest will be one of the Investment Fund's expenses and margin interest rates tend to fluctuate with interest rates generally, it is at risk that interest rates generally, and hence margin interest rates, will increase, thereby increasing its expenses.

*General Economic Conditions.* The success of any trading activity may be affected by general economic conditions, which may affect the level and volatility of securities prices, currency exchange rates, interest rates and the extent and timing of investors' participation in the markets for currencies, securities and other instruments. Unexpected volatility or liquidity in the markets in which Clients directly or indirectly hold positions could impair the Clients' ability to carry out their business or cause them to incur losses.

*Financial Market Conditions, Illiquidity and Resultant Actions of Managers of Investment Funds.* The financial markets in the United States and other countries experienced a variety of difficulties and changed conditions as a result of the financial crisis that began in 2008. These difficulties and changes, coupled with other recent challenges affecting the economies of certain countries, may lead to reduced liquidity in equity, credit and fixed-income markets, which would in turn adversely affect many issuers worldwide as well as the Investment Funds and PAAMCO's Clients, whether invested in the market directly or indirectly through an Investment Fund. This



reduced liquidity may also result in more difficulty obtaining financing by issuers and the Investment Funds. In addition, these conditions could result in reduced demand for the securities and other assets in which PAAMCO's Clients and the Investment Funds invest, and may affect the valuations assigned to such securities and assets, and similar securities and assets, by Clients, the PAAMCO Client Accounts, the Investment Funds and other market participants. Further, PAAMCO's Clients, the Investment Funds and such other market participants may not always value these investments at the same prices or in the same manner. Such reduced demand and affected valuations may in turn decrease the value of securities and assets held by PAAMCO Clients or the Investment Funds, and may prevent such PAAMCO Client or Investment Fund from liquidating such securities or other assets at any price, or at prices deemed favorable to the PAAMCO Client or Investment Fund, during certain periods, which periods may be substantial and prolonged. In addition, a decrease in the net asset value of an Investment Fund could lead to a default under some or all of such Investment Fund's credit and loan facilities, as well as the securities lending, swap and/or similar agreements to which such Investment Fund is a party, and force such Investment Fund to sell its securities or other assets at reduced prices to satisfy its obligations to its lenders and counterparties. If investors seek to redeem their investment in an Investment Fund, such Investment Fund may be forced to sell investments at less than intrinsic value in order to meet such redemption requests.

In the event that an Investment Fund is affected by such market conditions, an investment manager may, in consultation with PAAMCO when they deem appropriate, declare a suspension of: (1) the determination of the Investment Fund's net asset value, (2) the subscription for shares, or (3) the redemption and repurchase of shares, including the right to receive the redemption price. For example, an investment manager may extend the period for payment of redemption proceeds if it is unable to liquidate securities in a timely fashion to honor redemption requests. In addition, if redemption requests in respect of a particular redemption date exceed an amount that an investment manager, in its discretion and in consultation with PAAMCO, determines would cause a material adverse effect on an Investment Fund, the investment manager may suspend such redemptions for such period as such investment manager, in its discretion, determines.

If certain assets of an Investment Fund are or become difficult to value or illiquid, as well as upon termination of a subadvisory agreement, an investment manager, on behalf of an Investment Fund, may (i) distribute, transfer or allocate such assets held by the relevant Investment Fund into a non-redeemable tranche, special purpose vehicle, liquidating trust or separate account or vehicle (such tranche, special purpose vehicle, liquidating trust or separate account or vehicle, an "SPV"), in which case payment to the PAAMCO Client Accounts and other investors in such Investment Fund of the portion of their redemptions attributable to the securities or other assets held in such SPV may be delayed until such time as such securities and other assets are liquidated or become freely tradable or the assets of the Investment Fund with respect to which a subadvisory agreement has been terminated can be made in an orderly manner, or payment may be made in-kind in the form of shares of such SPV, and/or (ii) distribute certain securities and other assets held by such Investment Fund in-kind to the PAAMCO Client Accounts and other investors therein, in which case the PAAMCO Client Accounts may not be able to liquidate such securities and other assets during certain periods and/or at prices deemed favorable to its investors.

The occurrence of any one or more events described above may substantially impair the value of one or more Investment Funds. This, in turn, may have a material and adverse effect on the PAAMCO Client Accounts and other investors therein, including, without limitation, by rendering some or all of their shares illiquid or substantially impairing the value of the shares, in each case for prolonged periods.

*Turnover.* An Investment Fund's and/or a Client's trading activities may be made on the basis of short-term market considerations. Certain Investment Funds' and/or Clients' portfolio turnover rates will be significant, involving substantial brokerage commissions and fees. Each Investment Fund and Client will be responsible for the payment of all of the trading expenses incurred in connection with its trading activities, which will ultimately affect the return achieved by such Client.

*Start-Up Periods.* The Investment Funds and Clients typically encounter start-up periods during which they may incur certain risks relating to the initial investment of newly contributed assets. Moreover, start-up periods also represent a special risk in that the level of diversification of a Client or an Investment Fund's portfolio may be lower than in a fully committed portfolio or group of portfolios.

*Future Regulatory Change is Impossible to Predict.* Market disruptions and the dramatic increase in the capital allocated to asset management strategies during recent years have led to increased governmental as well as self-regulatory organization scrutiny of alternative investment vehicles, such as the Investment Funds and PAAMCO's Clients. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") could have a significant impact on the private fund industry, as well as the operations of the Investment Funds and PAAMCO with respect to its Clients. The SEC, the CFTC, the U.S. Congress, U.S. state legislatures and state securities administrators could impose greater regulation on the industry in the future. It is uncertain what impact the changes in the regulations applicable to the Investment Funds and PAAMCO's Clients, the markets in which they trade and invest or the counterparties with which they do business will have, or what further changes may be instituted. Any such regulation could have a material adverse impact on the profit potential of the Investment Funds and PAAMCO's Clients. This past fall, President Trump's transition team indicated that its new administration wants to "strip back" parts of the Dodd-Frank Act. However, while the new administration has made some general statements about Dodd-Frank Act, it is too early to tell which changes it might prioritize. At this point, it is unclear if any potential changes to the Dodd-Frank Act might include a reversal of the Dodd-Frank mandated regulations affecting derivative instruments or other investments in which the Fund may invest.

*Volatility and Liquidity in Global Financial Markets.* The financial crisis in the U.S. and global economies over the past several years, including the European sovereign debt crisis and the uncertainties resulting from the United Kingdom's planned exit from the European Union, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets and the economy at large and reduced liquidity in the markets for debt instruments. Both domestic and international equity and fixed income markets have been experiencing heightened volatility and turmoil, with issuers that have exposure to the real estate, mortgage and credit markets particularly affected. It is uncertain how long these conditions will continue.

In addition to the recent unprecedented turbulence in financial markets, the reduced liquidity in credit and fixed income markets may negatively affect many issuers worldwide. Illiquidity in these markets may mean there is less money available to purchase raw materials, goods and services, which may, in turn, bring down the prices of these economic staples. It may also result in issuers having more difficulty obtaining financing and ultimately a decline in their stock prices. The values of some sovereign debt and of securities of issuers that hold that sovereign debt have fallen. These events and the potential for continuing market turbulence may have an adverse effect on the Investment Funds. In addition, global economies and financial

markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region.

This reduced liquidity also may result in more difficulty in obtaining financing by issuers and some of the Investment Funds. In addition, these conditions could lead to reduced demand for the securities in which Investment Funds invest, which may in turn decrease the value of an Investment Fund's assets. Because the securities held by an Investment Fund are generally marked to market and fluctuate in value based on supply and demand, reduced liquidity in the markets for certain securities could depress the value of such Investment Fund's assets to less than their intrinsic value. If shareholders of an Investment Fund seek to redeem their shares, an Investment Fund may be forced to sell its investments at less than intrinsic value in order to meet such redemption requests.

The U.S. federal government and certain foreign central banks have acted to calm credit markets and increase confidence in the U.S. and world economies. Certain of these entities have injected liquidity into the markets and taken other steps in an effort to stabilize the markets and grow the economy. The ultimate effect of these efforts is not yet known. Changes in government policies may exacerbate the market's difficulties and withdrawal of this support, or other policy changes by governments or central banks, could negatively affect the value and liquidity of certain securities.

The situation in the financial markets resulted in increased regulation and has given new leverage to lawmakers and regulators over many financial institutions. The Dodd-Frank Act dramatically revised the U.S. financial regulatory framework that is expected to continue unfolding over several more years. The Dodd-Frank Act covers a broad range of topics, including (among many others) a reorganization of federal financial regulators; a process intended to improve financial systemic stability and the resolution of potentially insolvent financial firms; new rules for derivatives trading; the creation of a consumer financial protection watchdog; the registration and additional regulation of hedge and private equity fund managers; and new federal requirements for residential mortgage loans. Instruments in which certain Investment Funds may invest, or the issuers of such instruments, may continue to be affected by that legislation and implementing regulations in ways that are unforeseeable. Some of the implementing regulations have not yet, or have only recently, been finalized. Accordingly, the ultimate impact of the Dodd-Frank Act, including on the derivative instruments in which certain Investment Funds may invest, is still uncertain, especially in light of the Trump Administration's and Congress's announced intent to significantly modify the Dodd-Frank Act.

Because the situation in the markets was widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions.

*Investing in Emerging Market Countries.* Investing in emerging markets may involve risks in addition to, and greater than, those generally associated with investing in developed countries. For instance, emerging market and developing countries may have less developed legal and accounting systems than those in developed countries. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities from the country, and/or impose punitive taxes that could adversely affect the prices of securities. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries can also be relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid, and may be more difficult to value, than securities issued in countries with more developed economies and/or markets. Less certainty

with respect to security valuations may lead to additional challenges and risks in calculating for net asset value. Additionally, there may be increased settlement risks for transactions in local securities.

#### **Item 9. Disciplinary Information**

PAAMCO is required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of PAAMCO or the integrity of PAAMCO's management. PAAMCO has no information applicable to this Item.

#### **Item 10. Other Financial Industry Activities and Affiliations**

On June 1, 2017, PAAMCO became a subsidiary of PAAMCO Prisma, a new liquid alternatives firm owned by KKR Topaz LLC, an affiliate of KKR, and PHoldings, LLC, which is owned by certain employees of PAAMCO and Prisma. Under the terms of the agreement, the entire businesses of both PAAMCO and Prisma were contributed to PAAMCO Prisma Holdings, LLC, which operates independently of KKR. KKR retains a 39.9% stake as a long-term strategic partner. PHoldings, LLC owns the remaining 60.1% of PAAMCO Prisma.

KKR's affiliated investment advisers other than PAAMCO and Prisma ("KKR Advisers") primarily advise private equity funds and other investment vehicles (i) that invest capital for long-term appreciation, primarily either through controlling ownership of companies or minority positions, or (ii) that focus on U.S and European leveraged credit strategies. The KKR Advisers also provide investment services to institutional investors or investment vehicles with respect to publicly traded equity and debt securities, real assets such as infrastructure, energy, and real estate, real estate debt, and growth capital investments. KKR also sponsors and manages investment funds and other vehicles that facilitate co-investment along-side proprietary investments or in specific or multiple portfolio companies and other assets invested in by investment funds managed by KKR Advisers. KKR also owns KKR Capital Markets LLC and MCS Capital Markets LLC, each of which is a U.S. registered broker-dealer, and certain non-US entities authorized to conduct broker-dealer activities. PAAMCO Client Accounts may enter into co-investments alongside investment vehicles managed by KKR or may invest in Investment Funds advised by Managers in which KKR holds an ownership stake or has a strategic relationship. In addition, KKR's affiliated broker-dealers may manage or otherwise participate in private placements, underwriting syndicates and/or selling groups with respect to investments of Investment Funds. In these situations, KKR may receive management fees, transaction fees, underwriting fees, financing fees, or other compensation with respect to the investment activities of the Investment Funds, and KKR will typically control the entity in which the co-investment is made. In such circumstances, KKR is not a fiduciary of the Investment Fund or the co-investment vehicle, and is not obligated to act in the best interest of the Investment Fund or the co-investment vehicle when exercising control over such entity.

Prisma primarily advises clients with respect to diversified portfolios that are composed of private investment partnerships or similar vehicles managed by unaffiliated third-parties that pursue a variety of investment strategies, including convertible arbitrage, credit/distressed, dedicated short bias, emerging markets, equity market neutral, event, fixed-income arbitrage, global macro, long/short equity, managed futures, niche strategies, and multi-strategy. These portfolios are commonly referred to as funds of funds. These funds of funds may be organized as pooled investment vehicles and single-owner investment vehicles or separately managed accounts. Prisma also advises clients with respect to direct investments in securities and other financial instruments through certain strategies, including hedged equities, co-investments in

public and private market transactions including, but not limited to, mezzanine securities and mezzanine-like instruments, structured and illiquid credit, private debt and public debt, and pre-IPO equity, and thematic tactical opportunities that are generally unconstrained by geography or asset type. Prisma also provides advisory services with respect to fund of funds portfolios on a non-discretionary basis to an unaffiliated third party investment adviser and other unaffiliated third party clients.

As described in Item 6 above, a sector specialist for PAAMCO's Fund of Hedge Funds division's distressed debt sector also serves as co-portfolio manager for Prisma's Apex Credit strategy and serves on its investment committee. The Co-PM is a supervised person of each of PAAMCO and Prisma. In addition, it is expected that there will be an employee of PAAMCO Asia who will also be a supervised person of each of PAAMCO and Prisma (together, with the Co-PM, "Dual Supervised Persons"). Dual Supervised Persons will be subject to all policies and procedures of both PAAMCO and Prisma, including the Code of Ethics and Compliance Manual of each. In addition, the Dual Supervised Persons will be subject to supplemental policies that recognize the potential for information to be shared inappropriately and that provide for certain mitigants.

In addition, PAAMCO's Chief Compliance Officer also acts as Prisma's chief compliance officer and will be a supervised person of each of PAAMCO U.S. and Prisma and each of their SEC registered investment adviser subsidiaries. In these roles, the Chief Compliance Officer (along with the members of the Compliance Departments of PAAMCO and Prisma) will need to know certain confidential information relating to both PAAMCO and Prisma. The Chief Compliance Officer and the other members of the PAAMCO and Prisma Compliance Departments will not share confidential information of PAAMCO with Prisma, or vice versa, except for regulatory or compliance purposes.

Although PAAMCO, Prisma and KKR operate independently, their common ownership interests may in certain circumstances create conflicts of interest or the appearance of conflicts of interest. PAAMCO and Prisma, on the one hand and KKR, on the other hand, have implemented an information barrier policy that restricts the flow of information between PAAMCO Prisma, on the one hand, and KKR, on the other, to ensure the independent operation of PAAMCO Prisma from KKR, and to mitigate the potential for conflicts of interest. In addition, PAAMCO and Prisma have established a joint Conflicts Committee that is responsible for considering material conflicts of interest that may arise in the PAAMCO Prisma business and for providing oversight of procedures designed to address conflicts of interest within each of PAAMCO's and Prisma's business lines, in each case, to the extent that such conflicts are not internal to and resolved internally by PAAMCO or Prisma, or are otherwise addressed by PAAMCO's or Prisma's compliance manual, as applicable, or other relevant policies and procedures of PAAMCO or Prisma, as appropriate. Please refer to Item 11 for a discussion of the potential conflicts that may be raised by PAAMCO's relationship with these affiliates and the policies and procedures PAAMCO has adopted to address such potential conflicts.

Neither PAAMCO nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

PAAMCO U.S. is currently registered as a commodity pool operator and as a commodity trading advisor with the Commodity Futures Trading Commission ("CFTC"). As required by the CFTC rules, certain management persons of PAAMCO are registered as "associated persons" of PAAMCO U.S. PAAMCO U.S. is also a registered cross-border discretionary investment

management and investment advisory company with the Financial Services Commission in Korea.

PAAMCO Europe is located in England and PAAMCO Asia is located in Singapore. PAAMCO Europe is authorized and regulated by the U.K. Financial Conduct Authority. PAAMCO Asia holds a capital markets services license (to conduct fund management) issued by the Monetary Authority of Singapore and is an Exempt Financial Adviser under the Singapore Financial Advisers Act.

Entities that may or may not be wholly-owned by PAAMCO and/or its employees and affiliates have been or may be established to act as the general partner of a PAAMCO Client Account established as a limited partnership or as the managing member of a PAAMCO Client Account established as a limited liability company (each, a “PAAMCO LP/LLC Fund”). Further, at the insistence of the investor in a PAAMCO LP/LLC Fund, PAAMCO (and/or its employees and affiliates) may also invest in such PAAMCO LP/LLC Fund. Additional general partner/managing member entities may be formed and used in the future as well. PAAMCO U.S. is the investment manager of each PAAMCO LP/LLC Fund and, in that capacity, PAAMCO U.S. has full investment responsibility with regard to the management of the assets of each PAAMCO LP/LLC Fund. Accordingly, PAAMCO may be viewed as having an incentive to favor the PAAMCO LP/LLC Funds over its other clients. As described in the response to Item 6, however, PAAMCO has adopted controls, such as its allocation policy, that are intended to ensure that no Clients are favored over others.

As described in more detail in the response to Item 8 above, PAAMCO U.S. invests the assets of the PAAMCO Client Accounts in Investment Funds managed by other investment advisers. PAAMCO does not receive compensation from the other investment advisers in connection with such investments.

#### **Item 11. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

Under the Code of Ethics adopted by PAAMCO U.S. and the PAAMCO Relying Advisers, PAAMCO employees are not permitted to trade in most securities without the prior approval of the PAAMCO Compliance Department. In addition, PAAMCO employees and their family members are not permitted to acquire interests in any limited offering (including any PAAMCO Client Account or other private investment fund, including private investment funds managed by Prisma) or initial public offering without the prior approval of the Chief Compliance Officer or an employee of the PAAMCO Compliance Department designated by the Chief Compliance Officer. It is also PAAMCO's general policy not to permit employees to invest in Investment Funds held by PAAMCO Clients. Finally, PAAMCO's Code of Ethics also contains additional restrictions with regard to PAAMCO employee investments in (i) the Client Commingled Funds, (ii) investments held by the Separate Funds advised by PAAMCO and (iii) investments held in the accounts of the Clients of the Direct Trading division.

PAAMCO is committed to complying with applicable laws and regulations and to maintaining the highest ethical standards in connection with the management of PAAMCO. PAAMCO's Code of Ethics reflects PAAMCO's view on dishonesty, self-dealing, conflicts of interest and trading on material, non-public information, which will not be tolerated. PAAMCO's Code of Ethics also requires employees to provide initial and annual securities holdings reports as well as quarterly securities transaction reports. PAAMCO will provide any client or prospective client with a copy of PAAMCO's Code of Ethics upon request.

Subject to the pre-approval requirements noted above, selected PAAMCO employees, officers, members and/or managers may invest in certain Client Commingled Funds, in underlying securities in which Clients also invest indirectly through the Investment Funds, and in securities in which Clients of the Direct Trading division invest in directly. The investments of PAAMCO employees, officers, members and/or managers, as well as a PAAMCO-affiliated general partner/managing member/member, in various PAAMCO Client Accounts creates a conflict of interest because PAAMCO and its principals have an incentive to act in its or their own self-interest as opposed to that of the applicable Client. However, PAAMCO has adopted a Code of Ethics, as described above and, as described in the response to Item 6, PAAMCO has adopted controls, such as its allocation policy, that are intended to ensure that no Clients are favored over others.

Pursuant to its discretionary authority with respect to the PAAMCO Client Accounts, PAAMCO may direct PAAMCO Client Accounts to invest in certain Separate Funds advised by PAAMCO. However, neither the PAAMCO Client Accounts nor the Separate Funds advised by PAAMCO pay a fee to PAAMCO for their investment in those Separate Funds.

Certain senior employees of PAAMCO serve as directors of the Separate Funds advised by PAAMCO, Investment Funds formed for investment solely by PAAMCO Clients, and the PAAMCO Client Accounts. These PAAMCO principals do not receive compensation for their service as directors.

Upon obtaining proper direction and subject to its fiduciary duties and compliance with applicable law, PAAMCO may effect a transfer of interests in or shares of an Investment Fund between PAAMCO Client Accounts.

In addition to managing conflicts of interest with respect to trading and preventing self-dealing, PAAMCO has adopted and implemented various policies and procedures regarding employees' non-PAAMCO activities, political contributions, giving and receipt of gifts and entertainment, and affiliations with third party service providers. The intent of these policies and procedures is to minimize the opportunities for conflicts of interest to arise.

PAAMCO employees may benefit from educational events sponsored by industry service providers such as prime brokers, administrators, law firms, audit firms, and other such professional service firms.

In order to minimize the potential conflicts of interest that may arise as a result of an investor/client's use of Client-Directed Managed Account Services with respect to a subadviser that is otherwise the subadviser, adviser or manager to PAAMCO's discretionary clients, or vice versa, PAAMCO will maintain policies and procedures reasonably designed to prevent the sharing of information regarding the negotiated terms of a specific SP's subadvisory agreement (including, the business terms and the SP's investment objectives and restrictions) and its underlying positions, beyond those at PAAMCO who need this information to provide services to the SP and/or Compliance personnel. Additionally, in order to avoid conflicts arising from limited capacity available for investment with a manager that is identified by both an investor/client utilizing PAAMCO's Client-Directed Managed Account Services and PAAMCO with respect to its other Clients, PAAMCO will not permit simultaneous active due diligence and/or onboarding process with respect to such manager.

## Relationship with Prisma and KKR

PAAMCO and Prisma have adopted information controls and other policies and procedures to provide for the proper handling of confidential information (*i.e.*, nonpublic information received or created by PAAMCO or Prisma in connection with its activities) to prevent violations of laws and regulations prohibiting the misuse of such information and to avoid situations that might create an appearance of such misuse. While there is no general information barrier between PAAMCO and Prisma (other than with respect to the Direct Trading Division), PAAMCO and Prisma intend to share information only on a “need to know” basis, and in compliance with any contractual obligations, although there may be limited information flow relating to co-investment opportunities suitable for the Prisma Apex Credit Strategy and with respect to third-party portfolio managers. In addition, to the extent that either PAAMCO or Prisma receives position level transparency from Managers or Subadvisers it has hired on behalf of its clients, neither PAAMCO nor Prisma intends to share any position-level information with the other firm.

Dual Supervised Persons of PAAMCO and Prisma will be subject to supplemental policies that recognize the potential for information to be shared inappropriately and that provide for certain mitigants.

In addition, PAAMCO and Prisma, on the one hand, and KKR, on the other hand, have established an information barrier policy that restricts the flow of information between PAAMCO and Prisma, on the one hand, and KKR, on the other, to ensure the independent operation of PAAMCO and Prisma from KKR, and to mitigate the potential for conflicts of interest. Although KKR owns an indirect stake in PAAMCO and Prisma, PAAMCO and Prisma act autonomously and separately from KKR. The information barrier policy is in place in order to support the separation between KKR, on the one hand, and PAAMCO and Prisma, on the other hand, for legal, regulatory and compliance purposes, and the policy enables PAAMCO, Prisma and KKR to avail themselves of certain regulatory relief (such as avoiding the aggregation of certain holdings of KKR with those of PAAMCO and Prisma). Among other controls designed to safeguard the independence of PAAMCO and Prisma, on the one hand, and KKR, on the other, the policy generally prohibits the communication of material non-public information, information regarding investments held or intended to be bought or sold, voting decisions, and investment allocations. Although cooperation and certain limited information flow between KKR, on the one hand, and PAAMCO and Prisma, on the other, is permissible under the information barrier policy, such cooperation and information flow must be in accordance with the policy, and is generally undertaken in coordination with PAAMCO’s and Prisma’s legal/compliance team to ensure adherence to the principles of the policy.

PAAMCO’s Compliance Department is responsible for establishing and administering the information barriers described above on behalf of PAAMCO.

PAAMCO Prisma has established a Conflicts Committee that is responsible for addressing material conflicts of interest that may arise in the advisory business of PAAMCO and Prisma. In this role, the Conflicts Committee is responsible for the resolution of existing and potential conflicts that may arise across the PAAMCO Prisma structure. The Conflicts Committee is composed of members representing cross-functional business, finance, legal and compliance responsibilities. The Conflicts Committee will typically meet on a quarterly basis, and at such other times as necessary to review and address material conflicts to the extent that such conflicts are not otherwise resolved internally.

From time to time, PAAMCO Clients and funds and accounts managed by Prisma may seek to invest in a single Investment Fund with limited capacity, or allocate assets to a single



Manager with limited capacity, or otherwise face conflicts with respect to the allocation of investment opportunities. In such circumstances, to the extent that the conflict is not resolved through the application of the allocation policies and procedures of PAAMCO and Prisma, allocation determinations will be determined and/or overseen by the PAAMCO Prisma Conflicts Committee.

Certain Investment Funds have, and Investment Funds established in the future may have, an investment focus that is, at least in part, similar to the focus of certain funds or accounts managed by Prisma. The overlap of investment focus may be viewed as giving rise to conflicts of interest between PAAMCO Clients on the one hand and clients of Prisma on the other.

Prisma and PAAMCO may invest their clients' assets in funds or accounts managed by the same unaffiliated Managers or Subadvisers. Even if these funds and accounts pursue the same investment strategy, these funds and accounts may not be managed in exactly the same way by the Manager or Subadviser because, for example, PAAMCO may have the ability to vary the Subadviser's investment strategy for its clients when Prisma may not. PAAMCO may also have position-level transparency from the Subadviser, when Prisma may not. Although PAAMCO and Prisma may share information about Managers or Subadvisers, neither PAAMCO nor Prisma may be able to, and generally does not intend to, share any position-level information it may have about an Investment Fund's portfolio positions with the other firm. Accordingly, PAAMCO or Prisma may invest with or redeem from an Investment Fund at different times or for different reasons.

Additionally, the investment programs employed by PAAMCO and Prisma for certain client accounts may conflict from time to time with the transactions and strategies in managing other client accounts. For example, where an Investment Fund and a Prisma fund or account hold positions in the same issuer, their interests in many cases will be in conflict irrespective of whether their investments are at different levels of the capital structure. In addition, PAAMCO and Prisma, as applicable, may give advice or take action (including entering into short sales or other "opposite way trading" activities) with respect to their respectively managed investments and transactions of their clients. Such advice or actions may adversely impact PAAMCO or Prisma clients.

As described in response to Item 10, KKR owns an indirect, non-controlling interest in PAAMCO. KKR also sponsors private funds. PAAMCO Client Accounts may enter into co-investments alongside these private funds. Additionally, KKR is affiliated with broker-dealers that may manage or otherwise participate in private placements, underwriting syndicates and/or selling groups with respect to investments of the Investment Funds. In any or all of these situations, KKR may receive management fees, underwriting fees, financing fees, or other compensation with respect to the investment activities of the Investment Funds.

Investment Funds in which PAAMCO Client Accounts invest may pursue a broad range of investment strategies and invest in a broad range of securities and instruments and other assets globally. KKR is a major participant in the global markets and may from time to time be actively engaged in transactions in the same securities and financial instruments in which Investment Funds are invested, or in other securities and financial instruments issued by the same issuers in which Investment Funds are invested. Any such investment activities by the Managers of the Investment Funds in which PAAMCO Client Accounts invest are outside the control of PAAMCO. When PAAMCO makes investment decisions on behalf of PAAMCO Client Accounts, PAAMCO will generally seek to act in the best interests of such PAAMCO Client Accounts without consideration of the involvement of KKR in these transactions or the fees or other compensation that may accrue to KKR as a result.

In addition, PAAMCO may also invest assets of PAAMCO Client Accounts in Investment Funds advised by Managers in which KKR holds an ownership stake or with whom KKR has a strategic relationship. PAAMCO does not believe that the PAAMCO Client Accounts would receive fee concessions from an Investment Manager as a result of such a relationship. PAAMCO may have an incentive to allocate assets of PAAMCO Client Accounts to such Investment Funds since KKR has an indirect financial interest in the success of such Investment Funds. Any decision by PAAMCO to retain as a Manager, or to invest in an Investment Fund advised by a Manager in which KKR retains an ownership stake or a strategic relationship (other than Prisma and its affiliates) will be subject to review as described in Item 8 above.

## **Item 12. Brokerage Practices**

### **Fund of Hedge Funds Division**

As a general matter, PAAMCO U.S. does not direct brokerage or have any soft dollar arrangements with respect to its Fund of Hedge Funds division. Other than completing subscription agreements on behalf of its Clients for their respective investments in Investment Funds, PAAMCO U.S. does not execute trades on behalf of its Clients (except to the extent PAAMCO U.S. manages a Client's cash or cash equivalents or engages in currency hedges and spot currency purchases and sales). Rather, PAAMCO U.S. invests Client assets through private placements in Investment Funds at the prevailing monthly net asset value. Interests in Investment Funds are not generally available for purchase or sale through a broker-dealer. As part of the due diligence process, PAAMCO U.S. reviews the brokerage practices and soft dollar arrangements of the Investment Funds. In addition to managing a Client's cash or cash equivalents at the level of a PAAMCO Client Account, in certain cases PAAMCO U.S. manages the cash or cash equivalents held at the level of a Separate Fund advised by PAAMCO in its capacity as investment adviser.

Subject to its fiduciary duties and compliance with applicable law, PAAMCO U.S. may purchase interests in or shares of an Investment Fund for one PAAMCO Client Account at the same time it is redeeming interests in or shares of such Investment Fund for another PAAMCO Client Account.

On rare occasions, a PAAMCO Client Account may receive in-kind redemptions from Investment Funds (which could include a Separate Fund advised by PAAMCO) or PAAMCO may need to liquidate the assets of a Separate Fund advised by PAAMCO upon termination of the related Subadviser if the Subadviser does not liquidate the Separate Fund advised by PAAMCO by the effective date of termination. In those cases, PAAMCO's Investment Operations department will oversee PAAMCO U.S.'s hiring of a third party to manage or liquidate the investments.

The Subadvisers (which for the purpose of this section includes the subadvisers to the SPs) do engage in brokerage activities for Separate Funds advised by PAAMCO (or SPs as applicable). As part of the initial due diligence process and on an ongoing basis, PAAMCO U.S. reviews the brokerage practices and soft dollar arrangements of the Subadvisers. The prime brokers, futures commission merchants, and other derivatives counterparties of each Separate Funds advised by PAAMCO are selected by PAAMCO U.S. and the Board of Directors of the applicable fund in consultation with the relevant Subadviser based on factors such as the prime broker's or counterparty's overall performance, pricing, and operational capabilities.

Under the terms of each Subadvisory Agreement, each Subadviser is responsible for arranging for the execution of all orders for the purchase and sale of securities and other investments with respect to the applicable fund. The Subadviser is required to seek best execution for that Separate Fund advised by PAAMCO. The Subadviser, to the extent permitted by applicable laws and regulations, may aggregate the investments to be purchased or sold on behalf of its clients to attempt to obtain a more favorable price, lower brokerage commissions or efficient execution.

Pursuant to each Subadvisory Agreement, PAAMCO U.S. directs a Subadviser to select one or more preapproved prime brokers with respect to the applicable Separate Fund advised by PAAMCO. These prime brokers are preapproved for use as they have been previously approved by the Board of Directors of the applicable Separate Fund advised by PAAMCO.

Under the terms of each Subadvisory Agreement, if a Subadviser generates “soft dollars” with respect to the trades of the applicable Separate Fund advised by PAAMCO, the Subadviser must comply with the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with respect to such trades.

#### Direct Trading Division

##### Best Execution

The following factors may be considered when executing a trade on behalf of a Client: listed bids and asks; the opportunity for price improvement; transaction costs; anonymity; liquidity; speed of execution; likelihood of execution; quality of research; expertise with difficult securities; trading style and strategy; geographic location; frequency of errors; access to new issues; and taking into account the relevant factors previously listed, commission rates.

PAAMCO Europe, and other PAAMCO Relying Advisers, where applicable, will take all reasonable steps to obtain, when executing orders or arranging the execution of orders, the best possible result for its Clients taking into account relevant execution factors (a non-exhaustive list, set forth in the above paragraph). Notwithstanding this, where there is a specific instruction from the Direct Trading division client, it must be followed.

When executing a Client order or arranging its execution, PAAMCO Europe will consider the relative importance of the execution factors (listed above), taking into account: the characteristics of the Client; the characteristics of the Client order; characteristics of the financial instrument that is subject to that order; and characteristics of the execution venues to which that order can be directed.

Ordinarily, in considering best execution, price will be given a high relative importance in seeking to obtain the best possible result for professional clients such as PAAMCO U.S. and other Clients. However, this will not always be the case.

##### Soft Dollars

PAAMCO (including, for the avoidance of any doubt, PAAMCO Europe) will only use soft dollars to obtain products and services that fall within the safe harbor provided by Section 28(e) of the Exchange Act.

### Investor Referrals

PAAMCO Direct Trading may receive Client referrals from registered representatives of broker-dealers that trade on behalf of PAAMCO Direct Trading's Clients. PAAMCO is aware that such referrals pose a conflict of interest; PAAMCO Direct Trading could have an incentive to direct brokerage to broker-dealers that fail to achieve best execution in order to continue receiving referrals. PAAMCO's Direct Trading division will review referral relationships and the associated conflicts of interest during its periodic and systematic evaluations of execution quality.

PAAMCO's receipt of benefits from brokers, as described above, creates an incentive for PAAMCO to trade with brokers based on these benefits, whether or not pursuant to soft dollar arrangements, rather than the interests of PAAMCO's Clients in receiving best execution.

### Cross Trades

Currently, PAAMCO's Direct Trading division has only one Client. In the event that further mandates are accepted, PAAMCO Direct Trading may use an unaffiliated broker-dealer or custodian to cross investments and/or cash between Client accounts when such a transaction is advantageous for each participant. However, no accounts subject to ERISA with less than \$100 million in assets may be included in any cross trade unless an independent fiduciary acts for one of the Clients. In addition, cross trades involving ERISA accounts with at least \$100 million in assets may be permissible, so long as certain policies and procedures are adopted and implemented.

In effecting transactions, PAAMCO Europe will be permitted to deal as agent in accordance with FCA rules. As a matter of UK law, dealings for its own account with Clients by a firm such as PAAMCO Europe should be considered as the execution of Client orders and is accordingly subject to the Best Execution policy described above. PAAMCO Europe does not intend to deal for its own account with Clients.

There will be no transactions (including without limitation principal transactions or cross trades) between PAAMCO Clients and clients of Prisma without approval from the Conflicts Committee.

## **Item 13. Review of Accounts**

### Fund of Hedge Funds Division

Each PAAMCO Client Account is reviewed by a PAAMCO portfolio/account manager. The portfolio/account manager's review process may include constructing the Client portfolio and monitoring adherence to the Client's investment objectives and guidelines as well as reporting. In addition, PAAMCO has various sector specialists assigned to particular Investment Fund investment categories (as described in Item 8 above). These sector specialists and their designees monitor the investment strategies, performance, and other activities of the Investment Funds within the applicable sector, including personal visits to the Managers' offices, electronic communications, and telephone conversations with the Manager and staff.

The account/portfolio managers are accountable for their respective Client portfolios and are responsible for issuing an Investment Guidelines Report on each Client portfolio to PAAMCO's Compliance Department on a monthly basis. The Compliance Department reviews and logs any variation from a Client's guidelines and requires the applicable account/portfolio

manager to address any variation with an explanation and a follow-up to ensure that a Client notification is sent, if required, and any necessary changes to the guidelines are considered, if applicable. PAAMCO's Chief Compliance Officer (or an employee of PAAMCO's Compliance Department designated by the Chief Compliance Officer) then reviews a final, consolidated Investment Guidelines Report.

Each investor in a PAAMCO Client Account generally receives monthly, quarterly or other periodic reports that may include investment commentary and a review of performance. Each investor in a PAAMCO Client Account receives audited financial statements with respect to that PAAMCO Client Account after the end of such fund's fiscal year. Each direct investor in a Separate Fund advised by PAAMCO receives audited financial statements after the end of such fund's fiscal year. PAAMCO and its Clients may also agree that PAAMCO will provide certain other reports. Each Advisory Client receives such reports as agreed to between PAAMCO and such Advisory Client, which may take the form of periodic telephone calls or written reports and analysis.

#### *Direct Trading*

PAAMCO Direct Trading Client accounts are reviewed by the Direct Trading COO/CFO, or an employee designated by the Direct Trading COO/CFO. The nature and frequency of reporting on accounts is specific to the particular contractual agreement and goals of the account. Reports may include, but are not limited to, a summary of the account's positions, a listing of the transactions occurring in the account, various performance measures and/or other information independently negotiated with the Direct Trading Client.

#### **Item 14. Client Referrals and Other Compensation**

PAAMCO does not receive an economic benefit from any person who is not a Client for providing investment adviser or other advisory services to PAAMCO's Clients.

PAAMCO does not have any solicitation agreements with third party solicitors that are currently effective. However, PAAMCO compensates certain third party solicitors for referrals made by these solicitors pursuant to solicitation agreements that have now been terminated. If PAAMCO enters into new solicitation agreements in the future, PAAMCO will disclose the applicable compensation arrangements in writing to the affected investor or Client. Further, in certain non-U.S. markets, when required by local regulations, PAAMCO engages a third-party distributor. Such distributor is compensated with a flat fee per annum and an additional flat fee per investor who subscribes through the distributor, all of which is paid directly by PAAMCO U.S. In addition, PAAMCO Europe and PAAMCO Asia receive a percentage of management fees, performance fees and/or other fees paid to PAAMCO U.S. by any PAAMCO U.S. Client referred by PAAMCO Europe or PAAMCO Asia, respectively.

From time to time, PAAMCO may engage one or more consultants to provide PAAMCO with market research and consulting services relating to possible prospective clients.

#### **Item 15. Custody**

PAAMCO U.S. is deemed to have custody of the assets of each PAAMCO Client Account and Separate Funds advised by PAAMCO. PAAMCO does not have custody of the initial Client with a separate account in the Direct Trading division.

To comply with the requirements of the Investment Advisers Act of 1940, each PAAMCO Client Account and each Separate Fund advised by PAAMCO is audited each year by an independent public accountant and these audited financial statements are provided to direct investors within 180 days (in the case of the PAAMCO Client Accounts) or 120 days (in the case of the Separate Funds advised by PAAMCO) of fiscal year end.

#### **Item 16. Investment Discretion**

For those Clients where PAAMCO has investment discretion, PAAMCO typically receives express discretionary authority, including a power of attorney, through a limited liability company agreement, subscription agreement, investment management or similar agreement between PAAMCO and the applicable Client. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client account. PAAMCO exercises this discretion by subscribing to and redeeming from various types of Investment Funds on behalf of the PAAMCO Client Accounts.

In certain Client Separate Accounts, PAAMCO must obtain the approval of the investor prior to subscribing to an Investment Fund, in which case these assets would be classified as non-discretionary. However, to the extent a Client Separate Account's assets are invested in Investment Funds over which PAAMCO maintains discretion, such Client Separate Account assets are included in total discretionary regulatory assets under management.

#### **Item 17. Voting Client Securities**

##### *Fund of Hedge Funds Division*

PAAMCO has adopted a policy governing the voting of proxies that is designed to ensure that PAAMCO will vote proxy proposals, amendments, consents or resolutions (collectively, proxies) relating to interests in Investment Funds in a prudent and diligent manner intended to enhance the economic value of the assets of the funds. PAAMCO U.S. has the authority to vote proxies in all PAAMCO Client Accounts but generally does not vote proxies for Advisory Clients. In the case of Separate Funds advised by PAAMCO, the relevant Subadviser is generally required to vote proxies with regard to the related Separate Fund advised by PAAMCO pursuant to the applicable Subadvisory Agreement.

Where PAAMCO U.S. has proxy voting authority, PAAMCO U.S. considers each proxy proposal on its own merits, and makes an independent determination whether to support or oppose management's position. Any actual or apparent conflict of interest between the interests of PAAMCO and its Clients is resolved in a manner that is consistent with the best interests of PAAMCO's Clients and in a manner not affected by such actual or apparent conflict of interest.

A Client may obtain a copy of these proxy voting policies as well as information about how PAAMCO has voted a PAAMCO Client Account's proxies by calling (949) 261-4900.

##### *Direct Trading Division*

PAAMCO U.S. does not vote proxies on behalf of the initial Client in PAAMCO's Direct Trading division, but PAAMCO U.S. is responsible for acting on their behalf with respect to corporate actions.

**Item 18. Financial Information**

PAAMCO does not require or solicit prepayment of more than \$1,200 in fees per Client six months or more in advance and, accordingly, is not required to provide a balance sheet. In addition, PAAMCO has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.